

VS Industry (VSI MK)

Stars Align For A Breakout After Two Uneventful Years

Highlights

- The ingredients for sharp mean reversion are quietly falling into place, anchored by an earnings inflection after a prolonged period of ROI-driven fund outflows, portfolio de-risking and sustained underperformance versus peers in a risk-on environment, off a low base from 2025.
- While the tariff cost-sharing arrangement is likely to cap near-term margin expansion, stronger volumes and sticky customer relationships provide underlying earnings resilience over the medium term.
- Although we expect a seasonally softer quarter ahead, a stronger recovery in 2HFY26 is in sight as new models ramp up. Trade-diversion tailwinds and potential new MNC wins remain key longer-term re-rating catalysts.
- Valuation is compelling, trading below book and even lower than its MCO trough, offering a margin of safety at current compressed levels. Maintain BUY; target price: RM0.70.

Analysis

- **Sharp laggard with deep value support.** VS Industry (VS) stands out as the deepest laggard within the EMS segment, remaining flat ytd while peers across both consumer and industrial EMS have rallied by 7-18%. This follows a 57% share price collapse in 2025, driven by a confluence of earnings disappointments (weaker loadings and margin compression), a major shareholder sell-down, alongside risk-off sentiment amid tariff-related concerns. Valuation is deeply compressed, trading at just 14.8x FY26F PE (-0.5SD) and 0.83x FY26 P/B (-2SD below its seven-year mean) - levels last seen during the MCO trough (0.83-0.88x P/B). With expectations already heavily de-risked and downside largely priced in, we see an attractive risk-reward skew as earnings normalise in FY26 (+147%), setting the stage for mean reversion and re-rating.
- **Expect a seasonal softness in 2QFY26; to regain traction in 2HFY26.** Recall that VS delivered a sharp turnaround in 1QFY26, posting core earnings of RM24.5m after a lacklustre 4QFY25 (headline/core LATAMI of -RM33.0m/-RM18.4m), underpinned by a 26% qoq revenue rebound and narrower losses from its Philippines and HT Press operations. For the upcoming 2QFY26 results, we expect to see an earnings moderation on seasonally slower customer ramp-ups following inventory drawdowns in Dec 25, and unfavourable currency movements. That said, further loss narrowing from previously loss-making operations should partially cushion the softer top-line. Looking ahead, we expect a clear inflection in 2HFY26, supported by new model ramp-ups at its Philippine facilities and the start-up of new product lines for its pool-cleaning customers, setting the stage for stronger volume, better absorption and margin recovery into FY27.

Key Financials

Year to 31 Jul (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	4,248	3,788	4,222	5,029	5,439
EBITDA	413	223	320	419	452
Operating profit	287	96	190	289	318
Net profit (rep./act.)	246	37	127	200	222
Net profit (adj.)	210	51	127	200	222
EPS	5.3	1.3	3.2	5.1	5.6
PE	9.0	36.5	14.8	9.3	8.5
P/B	0.8	0.9	0.8	0.8	0.7
EV/EBITDA	4.6	8.6	6.0	4.6	4.2
Dividend yield	4.0	1.7	2.1	3.2	3.6
Net margin	5.8	1.0	3.0	4.0	4.1
Net debt/(cash) to equity	6.7	(3.3)	3.6	6.9	5.1
Interest cover	22.5	11.4	13.6	17.8	19.2
ROE	5.5	1.7	5.8	8.7	9.0
Consensus net profit	n.a.	n.a.	113	172	211
UOBKH/Consensus (x)	n.a.	n.a.	1.12	1.16	1.05

Source: VS Industry, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	RM0.475
Target Price	RM0.700
Upside	47.4%

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Stock Data

GICS sector	Information Technology
Bloomberg ticker:	VSI MK
Shares issued (m):	3,854.5
Market cap (RMm):	1,830.9
Market cap (US\$m):	451.4
3-mth avg daily t'over (US\$m):	4.3

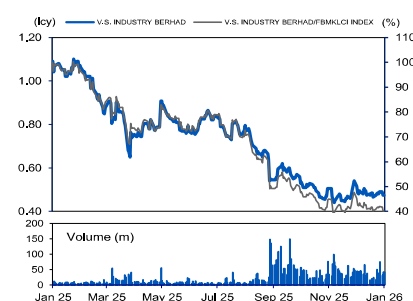
Price Performance (%)

52-week high/low				RM1.12/RM0.42
1mth	3mth	6mth	1yr	YTD
(12.0)	(15.2)	(43.5)	(58.0)	(2.1)

Major Shareholders

	%
Beh Hwee Sze	7.4
Beh Hwee Lee	7.4
Employees Provident Fund	6.0

Price Chart



Source: Bloomberg

Company Description

VS Industry is involved in the manufacturing of plastic parts and components, contract manufacturing, precision mould making, the sub-assembly of electronic and electrical equipment and other secondary processes. It has plants in Malaysia, China, and Indonesia.

- **Short-term pain for long-term gain.** Management highlighted that prevailing industry headwinds, particularly tariff-related pressures, are likely to continue weighing on profitability across the CM/EMS industry at least through FY26. To navigate the challenging operating environment, the group has adopted a strategic decision to partially share the tariff cost burden with customers in exchange for higher order volumes. While this will continue to lead to near-term margin compression, the current low-margin landscape is also driving a natural industry shake-out, accelerating a survival-of-the-fittest phase where weaker players are exiting the market, creating opportunities for market share consolidation by established and resilient players such as VS.
- **Customer-wise,** although there is some tapering in orders for certain existing models from Customer X, this is expected to be offset by contributions from newly secured models. Meanwhile, while demand for pool-cleaning products is expected to normalise, order ramp-ups from US-based customers and the coffee-brewer segment remain intact. All in all, management is maintaining its FY26 revenue target of RM4.2b.
- **Philippines operations on track for breakeven.** Philippines operations, which serve as a regional diversification for Customer X, are finally poised to see earnings turnaround following higher orders ramp up. Following a challenging gestation period, operational losses have continued to narrow (RM20.5m in 4QFY25 to RM9.1m in 1QFY26), with management targeting to break even by 1QCY26. Note that order ramp-up for its first model is accelerating, while production for the second model and PCBA are commencing in Dec 25 and Jan 26 respectively. Looking ahead, we understand that the facility has secured a key long-term product with the production of a motorhead scheduled to commence in Jun 26, which is expected to contribute positively to the group throughout FY26-27.
- **New foray – potential re-rating driver.** VS continues to attract interest from new MNCs, leveraging Malaysia's entrenched ecosystem. Early-stage discussions are underway, with a medical industry collaboration emerging as the most tangible opportunity (the client is reportedly doubling its capacity in Johor Bahru and has positioned VS as a strategic partner). PCB assembly has already commenced for this client, though we exclude contributions from our forecasts for now. Complementing this, a new pooling customer has been secured, and VS is also strategically deepening its integration with existing clients, notably by collaborating on the production of a battery pack for Customer X, a common component across different models. As a sensitivity, securing a RM300m contract at a 3% net margin could boost FY26 earnings by approximately 7%.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM0.70**, based on 16x 2026F PE (-0.5SD to the seven-year mean). VS is trading at an undemanding 14.8x FY26F PE (-0.5SD below its seven-year mean) and 0.83x FY26F P/B (-2SD), below even the MCO trough band of 0.83-0.88x.

Environmental, Social, Governance (ESG) Updates

Environmental

- VS has been certified with the ISO 14001:2015 Environment Management System for assembly services for mechanical and electrical products.

Social

- VS held an In-House Vaccination Programme in Aug 21 and achieved a 99.8% vaccination record for the entire workforce.
- It is proactively engaging with migrant worker rights specialists and independent auditors to improve the welfare of migrant workers in Malaysia.

Governance

- The company has in place an Anti-Corruption Framework which fulfils the requirements in the Guidelines on Adequate Procedures to Section 17A (5) of the Malaysian Anti-Corruption Commission Act 2009.

Sales Assumption

(RMm)	FY24	FY25	FY26F	FY27F
Sales	4,248	3,788	4,222	5,029
Key customer	2,007	1,988	2,675	3,083
Customer Z	400	352	250	275
China	30	30	40	72
Indonesia	350	333	349	349
New key customers	1070	400	500	800
Others	391	686	409	450
Core net margin (%)	4.9%	1.0%	3.0%	4.0%

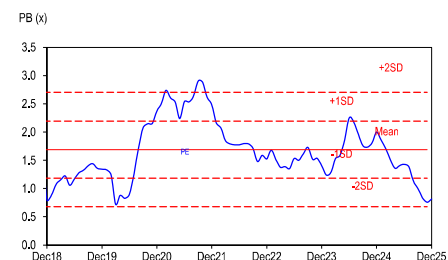
Source: UOB Kay Hian

Seven-Year Forward PE Band



Source: UOB Kay Hian

Seven-Year Forward P/B Band



Source: UOB Kay Hian

Profit & Loss

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Net turnover	3788	4222	5029	5439
EBITDA	223	320	419	452
Deprec. & amort.	127	130	130	133
EBIT	96	190	289	318
Associate contributions	-1	3	3	3
Net interest income/(expense)	-20	-23	-23	-23
Pre-tax profit	75	169	268	297
Tax	-42	-44	-71	-78
Minorities	4	2	3	3
Net profit	37	127	200	222
Net profit (adj.)	51	127	200	222

Cash Flow

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Operating	530.8	138.2	229.5	353.5
Pre-tax profit	75.0	169.1	267.7	297.1
Tax	(42.0)	(44.3)	(70.6)	(78.4)
Deprec. & amort.	127.0	129.7	129.8	133.4
Associates	1.1	(2.5)	(2.5)	(2.5)
Working capital changes	336.9	(137.4)	(118.6)	(19.8)
Other operating cashflows	17.2	8.0	8.1	8.1
Investing	(139.1)	(200.0)	(200.0)	(200.0)
Capex (growth)	(188.3)	(150.0)	(150.0)	(150.0)
Investments	31.4	31.4	31.4	31.4
Others	15.8	(81.4)	(81.4)	(81.4)
Financing	(257.2)	(91.0)	(112.9)	(119.5)
Dividend payments	(77.3)	(37.7)	(59.6)	(66.1)
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(160.3)	(34.6)	(15.4)	(14.7)
Others/interest paid	(19.6)	(18.7)	(37.9)	(38.7)
Net cash inflow (outflow)	134.5	(152.8)	(83.4)	34.0
Beginning cash & cash equivalent	755.0	858.7	705.9	622.5
Changes due to forex impact	(30.9)	0.0	0.0	0.0
Ending cash & cash equivalent	858.6	705.9	622.5	656.5

Balance Sheet

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Fixed assets	944	964	984	1,001
Other LT assets	262	264	267	269
Cash/ST investment	859	706	622	656
Other current assets	1,661	1,997	2,338	2,513
Total assets	3,726	3,931	4,211	4,440
ST debt	454	454	454	454
Other current liabilities	702	820	963	1,039
LT debt	333	333	333	333
Other LT liabilities	85	85	85	85
Shareholders' equity	2,153	2,242	2,383	2,539
Minority interest	(2)	(4)	(7)	(10)
Total liabilities & equity	3,726	3,931	4,211	4,440

Key Metrics

Year to 31 Jul (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	5.9	7.6	8.3	8.3
Pre-tax margin	2.0	4.0	5.3	5.5
Net margin	1.0	3.0	4.0	4.1
ROA	0.9	3.3	5.0	5.4
ROE	1.7	5.8	8.8	9.5
Growth				
Turnover	(14.1)	16.0	45.9	61.0
EBITDA	(59.9)	61.1	123.2	143.9
Pre-tax profit	(93.7)	176.0	360.0	414.9
Net profit	(110.6)	343.3	623.4	706.8
Net profit (adj.)	(75.5)	147.0	58.0	10.9
EPS	(98.2)	205.8	406.1	465.8
Leverage				
Debt to total capital	36.6	35.2	33.1	31.1
Debt to equity	36.6	35.1	33.0	31.0
Net debt/(cash) to equity	n.a	3.6	6.9	5.1
Interest cover	11.4	13.6	17.8	19.2

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